

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 /026 W

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R 241425Z APR 75

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC 2509

S E C R E T NAIROBI 3327

EXDIS

E.O. 11652: XGDS1

TAGS: MARR MASS PFOR KE US

SUBJECT: KENYAN REQUEST FOR U.S. SECURITY ASSISTANCE

REF: NAIROBI 1859

1. FINANCE MINISTER KIBAKI SUMMONED ME TO HIS OFFICE APRIL 23 TO EXPLAIN KENYA'S NEED FOR CONCESSIONARY FINANCIAL ASSISTANCE IN SUPPORT OF ITS RELATIVELY MODEST SIX-YEAR ARMED FORCES MODERNIZATION PROGRAM AIMED AT DETERRING POSSIBLE AGGRESSION BY ITS HEAVILY ARMED NEIGHBORS. KIBAKI STRESSED THAT KENYA WILL NOT BE ABLE TO FINANCE ANY REPEAT ANY OF \$200 MILLION FOREIGN EXCHANGE COMPONENT OF PROGRAM OUT OF OWN RESOURCES. HE POINTED OUT THAT, DESPITE EXPECTATIONS OF CONTINUING RECEIPTS OF SUBSTANTIAL FOREIGN ECONOMIC ASSISTANCE, ANTICIPATED FLAT PRICES FOR KENYA'S EXPORTS COMBINED WITH HIGH AND RISING PRICES FOR KENYA'S IMPORTS (WHICH CAN BE CUT BACK ONLY SLIGHTLY WITHOUT SLOWING DEVELOPMENT) WILL CAUSE LARGE BALANCE OF PAYMENTS DEFICIT FOR SEVERAL YEARS MAKING IT IMPOSSIBLE TO ABSORB ADDITIONAL BURDEN OF DEFENSE PROGRAM. IN FACT, EVEN WITHOUT DEFENSE COSTS, KIBAKI ANTICIPATES THAT FOREIGN EXCHANGE RESERVES CAN BARELY BE MAINTAINED AT PRECARIOUS LEVEL OF ONLY TWO MONTHS IMPORT COVERAGE INSTEAD OF FOUR MONTHS COVERAGE KENYA CUSTOMARILY MAINTAINED IN PAST. IF SUFFICIENT CONCESSIONARY FOREIGN FINANCING FOR KENYA'S ARMS REQUIREMENTS IS NOT MADE AVAILABLE, KENYA WILL HAVE NO CHOICE

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BUT TO CUT BACK SHARPLY ON ECONOMIC DEVELOPMENT IN ORDER

ACQUIRE BADLY NEEDED ARMS, A STEP WHICH KIBAKI SAID WOULD BE "TRAGIC." HE DID, HOWEVER, ACKNOWLEDGE THAT KENYA PLANS TO INCLUDE IN BUDGET LOCAL CURRENCY COSTS OF PROGRAM (EQUAL TO ABOUT \$84 MILLION) CUTTING BACK EXPENDITURES ELSEWHERE, PROBABLY ON ROADS AND EDUCATION.

2. KIBAKI REMAINED UNSPECIFIC RE SHARE OF TOTAL SECURITY ASSISTANCE NEEDS EXPECTED OF U.S. AS OPPOSED TO OTHER COUNTRIES, IT SEEMS CLEAR KENYANS ARE HOPEFUL OF GETTING VERY SUBSTANTIAL AMOUNT FROM U.S. DESPITE OUR REPEATED WARNINGS RE SCARCITY U.S. SECURITY ASSISTANCE FUNDS. KIBAKI SAID GOK PLANS TO BE "FLEXIBLE" RE SOURCES OF ARMS TO BE PROCURED AND THAT FINANCING AVAILABLE WOULD BE IMPORTANT AND EVEN OVERRIDING DETERMINANT OF SOURCE. HE SAID THEY HAD THUS FAR APPROACHED ONLY U.K. AND U.S. FOR ARMS ASSISTANCE, BUT PLAN TO APPROACH FRG AND SWEDEN AS WELL IN NEAR FUTURE. IN RESPONSE TO MY DIRECT QUESTION, FINANCE MINISTRY PERMANENT SECRETARY NG'ANG'A ASSURED ME THAT HIS TRIP TO MOSCOW LAST WEEK INVOLVED NO REPEAT NO DISCUSSION OF POSSIBLE SOVIET ARMS ASSISTANCE. KIBAKI ALSO MADE IT CLEAR KENYANS HAVE NO PRESENT PLANS TO SEEK OR ACCEPT SOVIET ARMS AID.

3. WITHOUT GETTING INTO QUESTION OF FUTURE MAGNITUDE OF U.S. ASSISTANCE, KIBAKI AND NG'ANG'A STRESSED THAT ANY FMS CREDITS PROVIDED BY U.S. SHOULD BE ON MOST CONESSION-ARY POSSIBLE TERMS, I.E., MAXIMUM MATURITIES AND LOWEST POSSIBLE INTEREST RATES. THEY ALSO NOTED THAT "BUNCHING" OF KENYA'S PRESENT LOAN REPAYMENT OBLIGATIONS IN 1976-78 WOULD MAKE IT VIRTUALLY IMPOSSIBLE FOR KENYA TO MAKE ANY REPAYMENTS ON MILITARY LOANS DURING THAT PERIOD. THEY EXPRESSED HOPE, THEREFORE, THAT ANY FMS CREDIT EXTENDED WOULD GRACE PERIOD WHICH WOULD CARRY THEM THROUGH TO 1979. IN RESPONSE TO OUR QUERY, KIBAKI SAID THAT BRITISH HAVE THUS FAR OFFERED ARMS FINANCING BY EXPORT CREDIT GUARANTY DEPARTMENT ONLY ON FAIRLY HARD TERMS (I.E., 7 AND 1/2 PERCENT INTEREST, FIVE YEAR MATURITIES, 25 PERCENT DOWN PAYMENT). KIBAKI SAID THAT THIS TYPE OF FINANCING DOES NOT MEET KENYA'S NEEDS AND THAT BRITISH HAD BEEN SO INFORMED.

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4. KIBAKI PROMISED TO GIVE ME A LETTER EXPLAINING THEIR MILITARY FINANCING NEEDS BEFORE MY DEPARTURE FOR WASHINGTON APRIL 26. I CONTINUE TO RECOMMEND THAT WE BE AS FORTHCOMING AS POSSIBLE WITH KENYANS INsofar AS TERMS OF ANY FMS CREDIT PROVIDED ARE CONCERNED. WHILE IN WASHINGTON I WOULD WELCOME DISCUSSIONS ON THIS ISSUE AS WELL AS ON GENERAL MAGNITUDE OF FMS CREDIT WHICH WE MAY EVENTUALLY

MAKE AVAILABLE TO KENYA.

MARSHALL

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, MILITARY ASSISTANCE, NATIONAL SECURITY
Control Number: n/a
Copy: SINGLE
Draft Date: 24 APR 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NAIROB03327
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: N/A
Film Number: D750144-0534
From: NAIROBI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750421/aaaaatar.tel
Line Count: 117
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: 75 NAIROBI 1859
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 17 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 JUN 2003 by izenbei0>; APPROVED <18 JUN 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KENYAN REQUEST FOR U.S. SECURITY ASSISTANCE
TAGS: MARR, MASS, PFOR, KE, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006